Testimony of
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Chairman Hollings, Chairman Kerry, Senator McCain, and members of the Committee, good morning. I have been asked to speak today on the national security implications of America's dependence on foreign oil. I am honored that you have asked me to address this issue. The questions that you will be asking this morning and again next Tuesday will have repercussions long beyond our lifetimes. These issues will impact generations to come, in terms of the effects on our national security, our standard of living and our commitment to the environment. Thus, this Committee is engaged in a critical task as it considers what would be the appropriate levels for increased Corporate Average Fuel Economy ("CAFE") standards.

Before I begin my formal remarks, I would like to applaud Senator Kerry for the alternative energy plan that he unveiled earlier this week. I believe that his proposal strikes a

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healthy balance between the conservation and production concerns that are at the heart of the energy debate.

The lessons of the impact of our dependence on foreign oil supplies were first taught to us back in 1973 and 1974, when the initial Arab oil embargo (the "Arab Embargo") on the United States occurred. At that time, the federal government imposed domestic price and allocation controls on petroleum. The results of this policy, as many of you will remember, were widespread gasoline shortages and long gas lines, as well as rapid price increases. The economy as a whole suffered greatly as a result.

In 1975, in large measure spurred by the Arab Embargo, Congress passed the Energy Policy and Conservation Act ("EPCA"). The EPCA included provisions that established the CAFE standards for new passenger cars. Given the oil crisis at that time, it appeared that the CAFE standards would be quickly implemented.

However, in spite of the obvious merits of the standards, the American automobile manufacturers were opposed to the regulations. I remember their opposition well. In my role as Domestic Policy Advisor to President Carter, I was part of the team that developed the first CAFE standards. Those standards set the necessary fuel economy levels for the period from 1977 to 1985, starting at 18 miles per gallon ("MPG") in 1977 and rising to 27.5 MPG in 1985. I specifically remember a meeting in the Cabinet office with President Carter and the heads of the big three automobile manufacturers -- Ford, General Motors and Chrysler -- in which all three strongly opposed the imposition of fuel economy standards. They claimed that their companies lacked the technology to reach the standards that the Administration had in mind. And yet, once the CAFE standards were implemented, all three companies met and exceeded the standards.

I can imagine the pressure that you are under from those same companies and others as you consider raising the standards. But as you embark on this process, I strongly urge you to recall our experiences in developing the first set of CAFE standards. You should feel confident that the automobile manufacturers do have the ability to achieve and in fact surpass whatever standards you set.

National Security Implications of Reliance on Oil Imports. At present, the United States imports more than 51% of its oil. That number is projected to increase to 64% by 2020. Such heavy reliance on foreign oil places the United States in a precarious position. Already, oil has played a central role in one recent conflict -- the Gulf War -- and, over the past quarter century, it has been an influential ingredient of American foreign policy more broadly.

Each year, the United States imports 16% of its oil from Saudi Arabia and an additional 9% from other States in the Persian Gulf. As you all know, this is a consistently volatile region, and our dependence on oil from the Middle East is fraught with insecurity and danger. As we were so horribly reminded on September 11th, terrorist threats both at home and abroad have links, whether direct or indirect, with the oil-producing States in the Gulf region.

Our reliance on States that unstable or even hostile to the United States, presents a very real national security dilemma, a dilemma that must be addressed immediately. Some States, like Iran and Iraq are actively hostile to the United States. Others, like Saudi Arabia, have historically been friendly to us, but they are often autocratic regimes, which rest on power bases that may not have broad public support, and that have their own internal fundamentalist threats. While we have a national security interest in the stability of these regimes, we must remain aware of the possibility that they will fall into hostile hands. I certainly can say that, given my experience with

Iran during the Carter Administration, no one would have forecast that the Iranian Revolution would topple the Shah of Iran, given the military support he appeared to have.

Potential threats in Iran, Iraq, and elsewhere in the region constantly jeopardize the stability of the Persian Gulf. In 1972 the price of crude oil was about $3.00 per barrel and, by the end of 1974, the price of oil had quadrupled to $12.00. The price rise was almost exclusively the result of the embargo by Arab oil-producing states in response to Western support of Israel in the Yom Kippur War. The Yom Kippur War started with an attack on Israel by Syria and Egypt on October 5, 1973. The United States and many countries in the western world showed strong support for Israel. As a result of this support, Arab exporting nations imposed an embargo on any nations supporting Israel in the war. Arab nations curtailed production by 5 million barrels per day. Approximately 1 million barrels per day were recovered by increased production by other countries. The net loss of 4 million barrels per day extended through March of 1974 and represented 7 percent of the free-world production.

Our national security concerns are not restricted to regional action. Since the 1970s, Iran and Iraq have been involved in a number of cataclysmic events that have shaped not only their countries, but ours, as well. Indeed, our reliance on oil from Iran left us vulnerable to that nation's problems at the end of the 1970s. I was serving in the Carter White House at that time and lived through the implications of the Iranian revolution on our economy and, more broadly, our society.

The rise to power of Ayatollah Khomeini altered our relationship with Iran and led to one of the most difficult events of the last 25 years, the Iranian hostage crisis. At the time of the Iranian Revolution, oil production from Iran dropped precipitously and oil prices in the United

States skyrocketed. The Iranian revolution resulted in the loss of 2 to 2.5 million barrels of oil per day between November of 1978 and June of 1979. Moreover, after the United States Embassy in Tehran was occupied in November 1979, President Carter halted all oil imports from Iran. During the one year period from the beginning of 1979 until the beginning of 1980, oil prices rose by 120%. That increase was a knockout blow to the U.S. economy, aggravating inflationary pressures and increasing unemployment at the same time. In fact, from 1978 to 1981, crude oil prices rose by two and a half times, from $14 per barrel to $35 per barrel.

Another, smaller supply interruption occurred during the Iran-Iraq War from 1980 to 1988. During the Iran-Iraq War, Iraq's crude oil production fell 2.7 millions of barrels per day, and Iran's production dropped by 600,000 barrels per day. The impact of this event was much milder, but still worrisome.

Iran presents a great policy dilemma for the United States, with its Janus-like policy towards us, with one part of the government advocating improved relations with the United States, while the other and more dominant faction supports positions that are inimical to America. In Iran, we are presented with a reformist president, Mohammad Khatami, who is supported by the majority of the people and appears to be sympathetic to some improved relations with the United States. However, he clearly does not have control of the security and defense apparatus in Iran, as well as other sectors of the Iranian government, which support terrorist organizations like Hezbollah, seek to destroy the Middle East Peace Process and are on a crash-course to develop medium-range missiles with potential chemical or nuclear warheads that will be able to reach Israel in a few years. There is no reason to think that the Iranians will stop there, and we must be concerned by the possibility that they will try to develop long-range missiles that can hit the United

States. And, clearly, Iraq is not a reliable partner either. At present, we do not import any oil from Iran and, in 2001, we imported approximately 600,000 barrels per day from Iraq. To place these numbers in perspective, Iranian oil production capacity is estimated to amount to 3.9 million barrels per day and Iraqi production capacity is estimated to be 2.8 million barrels per day. In light of our relations with Iran and Iraq, we find ourselves largely dependent on others in the region for our oil.

Our dependence on oil from the Middle East profoundly influences our economy and our foreign policy. In fact, our decision to take military action against Iraq after the invasion of Kuwait was, at a minimum, heavily influenced by our dependence on oil from the Persian Gulf. The threat -- not only to Kuwait but to others in the Gulf region -- posed by Saddam Hussein's expansionist pretensions led us to commit more that 500,000 American servicemen and women during the Gulf War. More than 600 of our troops were killed or wounded in battle. Many more continue to suffer from a variety of illnesses since their return home.

At present, we have more than 4,500 troops stationed in Saudi Arabia, and more than 12,500 Navy personnel at sea in the Persian Gulf. The presence of these troops is intended to protect the governments in the region, but it also leads to resentment in the region, resentment that was at the heart of the September 11th attacks. The United States now finds itself torn between its interest in supporting stable governments in the Persian Gulf and the hostility and danger attendant to the presence of American troops on foreign soil. In the end, our dependence on Persian Gulf oil in general and Saudi oil in particular leaves us vulnerable to attack, both abroad and at home.

It is also worth mentioning that unconfirmed reports in The Washington Post suggest that Saudi Arabia may ask the United States to withdraw its military personnel. Nevertheless, our troops remain deployed there, in large measure to protect the Saudi government

and its primary asset: oil. Moreover, I would note that, while at one level the withdrawal of our troops from Saudi Arabia will reduce the threat posed to our servicemen and women, it also threatens to make Saudi Arabia more unstable.

The lesson of the past 25 years in the Persian Gulf is clear: regional instability there has real, tangible effects here, in the United States. If we do not take action at home to reduce our reliance on oil from abroad, we run the risk of falling prey to the very same problems we have lived through in the past. Indeed, we have seen fit to fight a war in effect to protect our oil interests. And, in placing the lives of American servicemen and women in harm's way in the Gulf War, we have signaled the dangers of our reliance on oil from that region.

Nonetheless, we remain dependent on a region where, in the past decade, we have fought two wars, where the tide of anti-Americanism continues to rise, and where the tension between modern and radical Islam threatens the ruling elites of the governing regimes. In spite of all of these risks -- each in itself sufficient to threaten our oil supply from the region -- we continue to import 25 percent of our daily supply of oil from the Persian Gulf. Strictly from a national security perspective, this policy does not make sense.

One further point bears mention: I do not mean to single out the Persian Gulf region as the only area where dependence on foreign oil renders the United States vulnerable. Obviously, that region has been, over the past quarter century, the primary source of national security concern with regard to foreign oil production. But other areas engender similar concerns. Nigeria, which boasts Africa's largest population and a wealth of religious and regional animosities, supplies the United States with 900,000 barrels of oil per day. The Caspian Sea region remains a relatively small producer, but its potential reserves make it one of the most anticipated oil resources

worldwide. Indeed, the Caspian Sea region is generally considered to represent one of the largest untapped oil resources in the world. And yet, the region itself -- and the surrounding areas that would be essential for extraction of the oil -- like the Persian Gulf, has an uncertain future.

The Caspian Sea is located in northwest Asia, landlocked between Azerbaijan, Iran, Kazakhstan, Russia and Turkmenistan. Since the breakup of the Soviet Union in 1991, the Caspian Sea -- as well as the region surrounding it -- has became the focus of much international attention due to its huge oil and gas reserves. The Caspian Sea, which is 700 miles long, contains six separate hydrocarbon basins, and most of the oil and gas reserves in the Caspian region have not been developed yet. Ongoing legal wrangling over rights to the oil continues to stunt the development of the reserves.

To give some sense of the potential importance of the Caspian oil fields, I would note that, in May 2001, oil industry officials reported sizable oil deposits in an area known as East Kashagan, in the Caspian Sea off the Kazakhstan coast. Initial estimates indicate that that field alone could contain as much as 50 billion barrels, and at least 20 billion barrels, of crude oil. By comparison, the United States has known reserves of 21 billion barrels.

Aside from ongoing issues over who retains the rights in the Caspian, U.S. national security is threatened by instability in the areas surrounding the Caspian. Getting the Caspian oil to international markets will require overcoming enormous obstacles since it must travel by pipeline through one of the most politically volatile areas of the world. Because the Caspian Sea is landlocked, oil and natural gas must be transported by pipeline to a terminal on the open sea, where it would be pumped into tankers and shipped to customers. Long distances over often inhospitable mountain and desert terrain, prone to earthquakes, and vulnerable to attack, would

make pipeline construction and operation extremely difficult. Proposed pipelines might run through Chechnya, Georgia, Armenia and Iran, among other hot spots. Recent instability in those areas is only one concern. We must also consider the potential for upheaval after the pipeline has been constructed. As our reliance on particular oil deposits grows, our vulnerability to such upheaval grows apace.

By raising the CAFE standards, you will reduce our vulnerability to national and regional instability in oil-producing areas. According to the Union of Concerned Scientists, CAFE has already saved 60 billions of gasoline (3.9 million barrels per day). A rise in the minimum CAFE standards to 40 MPG would save 125 billion gallons of gasoline by 2012. This represents approximately 1.9 million barrels per day, or more than the total amount of oil we import from Saudi Arabia. And, at the end of the day, by reducing our consumption of foreign oil, we will shield ourselves from many of the threats posed by our current level of dependency.

Impact of Oil Dependence on the U.S. Trade Deficit. In addition to the national security concerns that I have just discussed, a reduction on our dependence on foreign oil would have a substantial effect on our foreign trade deficit. Oil is the United States' biggest natural resource import and one of the single largest contributors to our trade deficit. According to the Department of Energy, in 2001, the United States imported an estimated $110 billion in petroleum products. At the same time, our trade deficit last year was an estimated $350 billion. One year earlier, in 2000, our trade deficit reached an all-time high of $375 billion. Indeed, throughout the 1990s, our trade deficit rose each year, and our reliance on foreign oil was a primary cause of the rising deficit.

By way of example, I would point out that, in November 2001, our monthly trade

deficit was $1.4 billion lower than our trade deficit one month earlier. The largest single contributor to that drop was a 17 percent reduction in oil imports. Even with that reduction, oil represented more than six percent of U.S. total imports in the month of November.

The volatility of the world oil market leaves the U.S. economy vulnerable to price fluctuations. For example, world oil prices tripled between January 1999 and September 2000 due to strong demand, OPEC production cutbacks, and other factors, including weather and low oil stock levels. Our reliance on foreign oil challenged our economy and increased our trade deficit. Thus, by raising CAFE standards and reducing domestic oil consumption, not only would we be reducing our dependence on volatile areas of the world, but we also would be contributing to the reduction of our trade deficit.

Impact of Oil Dependence on Global Warming and Pollution. As the Chief U.S. Negotiator for the United States for the Kyoto Protocol on Global Warming, I have a particular interest in the environmental effects of our oil dependence. Therefore, I must also mention, at least briefly, the impact of our oil dependence on the environment. To the extent that we want to reduce the threat of greenhouse gases, a reduction in oil consumption is essential. Transportation is responsible for one-third of the release of greenhouse gases into the earth's atmosphere. And, although the United States accounts for three percent of the world's population, we are responsible for over 20% of greenhouse gases worldwide. Thus, by raising the CAFE standards, we will not only reduce our dependence on volatile foreign markets but we will be taking steps to reduce America's role in the decay of the environment. As I mentioned at the outset, our responsibility to tackle these difficult issues goes far beyond our own generation. The CAFE standards represent just one of the means by which we can take action.

Impact of Oil Dependence on the American Automobile Industry and on Consumers. I am not one who believes in an either/or proposition between conservation and production. I believe that we need conservation, increased domestic production, and increased research and development on new technologies. On this point, I should mention that I recently test drove the new Toyota Prius hybrid that gets 52 miles per gallon of gas in the city. The engine is part fuel cell and part internal combustion engine. I found the car to be very impressive. I know, Senator Kerry, that your alternative energy plan would provide tax incentives to speed production of hybrid-fuel engines. I firmly agree with this proposal. U.S. automakers must jump on the hybrid-fuel train before it has left the station. Already Japanese automakers have begun developing the technology at a faster rate than their American counterparts. In addition, the Germans have revealed a diesel-powered car that will get 35-40 miles per gallon. Simply put, U.S. automakers must be able to compete with their foreign counterparts. Having a fleet that is more fuel efficient will allow our automakers to do just that.

Just last week, the Bush Administration announced that it will not take advantage of congressional action that opened the door to higher fuel efficiency requirements for 2004-model-year pick-up trucks, minivans and sport-utility vehicles. This is regrettable. Although the National Highway Traffic and Safety Administrator announced that he will continue to consider higher fuel efficiency standards, he added that an April 1, 2002 deadline does not provide sufficient time to review the issue. I would hope that the Administration will push to review the standards so that, at a minimum, higher requirements can be implemented for 2005-model-year vehicles. The NHTSA's recent action also places an additional burden on you to move expeditiously in setting higher CAFE standards, so that they can be implemented as soon as possible.

In the meantime, President Bush's proposed energy plan would include controversial drilling in the Arctic National Wildlife Refuge ("ANWR") in Alaska. While the President's proposal would not provide for drilling of the entire region, it is noteworthy that, even if drilling took place in the entire ANWR reserve, according to the Department of Energy, there is a 95 percent probability that at least 5.7 billion barrels of oil are technically recoverable. At the other end, there is only a 5 percent probability that there are more than 16 billion barrels of oil that are recoverable. The mean estimate is that 10.3 billion barrels of oil are recoverable. To place those numbers in perspective, the United States consumes about 19.4 million barrels of oil per day, meaning that the ANWR reserves would only be able to supply full consumption for less than a year-and-a-half. Of course, the reserves would not be used to supply full consumption, but the fact is that ANWR would only add 0.3% to the world oil supply. Thus, the Administration's Plan with regard to ANWR simply does not itself relieve our dependence on foreign oil supplies.

With relation to the costs to consumers that would come from rising car prices to accommodate new technology, I believe that those costs will be more than offset by fuel savings. Indeed, it has been estimated that, with higher fuel efficiency standards in place, consumers buying cars in 2012 would save a net of $2,200 over the lifetime of their car.

I would reiterate that we must learn the lessons of the past. In the 1970s and 80s, Japanese automakers succeeded in gaining a foothold in the U.S. auto market by providing a benefit to consumers that American auto manufacturers had simply overlooked. Starting in the 1970s, while American automakers stood on the sidelines, Japanese manufacturers introduced smaller, more economical vehicles to the U.S. market. By the time American manufacturers entered that market, the Japanese makers had already cornered it. The U.S. auto industry

continues to suffer from the failure of American manufacturers to recognize the trend in the market before it happened. Cars that require less gas are the wave of the future. We must ride that wave. We should not wait until the next run-up in oil prices or until Japanese manufacturers have arrived before we take action. There is no lack of technology to meet higher standards. The issue is whether the will to implement change exists.

Simple steps to improve automotive fuel efficiency would pay enormous dividends. Closing the loophole under which SUVs are allowed to meet lower standards than other passenger cars would, by early in the next decade, save roughly one million barrels of oil per day, helping to provide clean air and protecting Americans from disruptions in oil supply. According to a recent study by the National Academy of Sciences, this advance could be accomplished with available technology and at no cost to consumers over the life of a car.

Conclusion. To sum up: America's reliance on foreign oil imports presents an ongoing threat to the stability of our economy and continues to exert undue influence our foreign policy. The national security costs of our petroleum dependence have never been more clear. As you probably know, I am by no means an advocate of protectionist trade policies. What I do advocate, however, is a reduced dependence on foreign oil, both for its effects on our economy and on our national security. By raising the CAFE standards, you will reduce our dependence on foreign oil. The benefits of a reduced dependence will be felt not only by us but also by future generations. I urge you to fight the resistance of the automobile industry and others who fear the potential short-term costs of increased fuel efficiency. The benefits of fuel economy are simply too great to ignore. Enactment of the Kerry energy proposal would be a good step forward and would be in the interests of our national security, our trade deficit, and the environment.

Thank you very much. It is a pleasure to be here and to contribute to the Committee's work. I would be happy to answer your questions.